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# ACCOUNTING STANDARD 13

## ACCOUNTING FOR INVESTMENT

“Develop success from failures. Discouragement and failure are two of the surest steppingstones to success.”

### 1. NON-APPLICABILITY OF AS 13

**AS 13 - Accounting for Investments doesn't deal with the following:**

- Treatment of **Income from Investments** such as Dividend, Rent and Interest. These are covered under AS 9.
- **Finance or Operating Leases** of any Investment Property which are covered by AS 19
- Investments in **Retirement benefit plans** which is covered by AS 15 (in the name of Plan Assets)
- The following which is formed under the Central or the State Government Act or declared under Companies Act, 2013
  1. **Mutual Funds Companies**
  2. **Venture Capital Funds and related Asset Management Companies**
  3. **Banks as well as public financial institutions**

### 2. MEANING OF INVESTMENT AND ITS CLASSIFICATION

**Investments Means:** Assets held by an enterprise for:

- **Earning incomes** by way of dividends, interest, and rentals, or
- **for capital appreciation**, or
- **for both.**

**Examples of Types of Investments:**

1. Investment Shares, debentures and Bonds (including Mutual Funds)
2. Investment in Govt. Securities or Trust Securities
3. Investment in Properties (Land, Building or Both)

**Note:** AS 13 also applies to the Investment in Shares, Debentures and other Securities held as stock in trade with limited exceptions.

**Classification of Investments as per AS 13:**

1) **Current Investments** - Current Investments are investments which by their nature are readily realizable and are intended to be held for not more than one year from the date when such investment is made.

(Note: The intention to hold for not more than one year is to be judged at the time of purchase of investment.)

2) **Long-Term Investments** - Long-term investments are investments other than the current investments, even though they might be freely marketable.

**3. COST OF INVESTMENTS****Calculation of Cost of Investments:**

|                                    |     |
|------------------------------------|-----|
| Purchase Cost (Actual Amount paid) | XXX |
| (+) Brokerage, duties and Fees     | XXX |
| Total Cost of Investments          | XXX |

**Non-cash consideration by:**

1. **Issuing shares:** Cost will be the fair value of Securities issued.
2. **any Exchange of other asset:** Cost of the investment is determined by reference to the fair value of the asset given up or the fair value of the investment acquired, whichever is more clearly evident.

**Calculation of Gain/Loss on sale of of Investments:**

|   |     |
|---|-----|
| Sale Value of Investments (i.e. Market Price) | XXX |
| (-) Brokerage, duties and Fees                | XXX |
| Net Sale Proceeds                             | XXX |
| (-) Cost of Investments                       | XXX |
| Gain/Loss on Sale (Transfer to P&L)           | XXX |

**4. MEASUREMENT OF INVESTMENTS AT BALANCE SHEET DATE**

| CURRENT INVESTMENTS  | LONG TERM INVESTMENTS   |
|--|---|
| <p>Lower of:</p> <p>(a) Cost; and</p> <p>(b) Fair Value</p> <p>Such measurement may be followed either individual investment wise or entire category wise.</p> <p>Any reduction to Fair Value is charged to Profit and Loss Account.</p> | <p>Long Term Investments are usually carried at COST.</p> <p>Such measurement shall be made individual investment wise only.</p> <p>But, when there's a decline, apart from temporary, in value the long-term investment, carrying amount</p> |

If Fair Value increased subsequently, the increase in value up to the original cost of investment is credited to Profit and Loss Account.

(Excess portion shall be ignored)

shall be reduced for recognizing such decline and charged to Profit and Loss account.

The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

#### Example of Decline in Value of Long-Term Investments "other than temporary":

- Company in which investment is made "is making cash operating losses" which has resulted in reduction of its net worth.
- New regulations which have negative impact in the working of the investee.
- Significant reduction of quoted price of the investment, etc.

## 5. SPECIAL CASES

### 1) Investment Property:

Investment properties such as Land, Building or both are investments if they aren't intended to be used significantly for business operations company.

Investment Property is to be accounted for in accordance with COST Model of AS 10 i.e. Original Cost less Accumulated Depreciation and less Accumulated Impairment.

(Note: - Revaluation Model of AS 10 is not allowed for Investment Properties i.e. Land and Building)

### 2) Reclassification of Investments:

| CURRENT reclassified to LONG TERM   | LONG TERM reclassified to CURRENT   |
|---|---|
| Lower of: <ul style="list-style-type: none"> <li>• Cost; and</li> <li>• Fair Value</li> </ul> | Lower of: <ul style="list-style-type: none"> <li>• Cost; and</li> <li>• Carrying Amount (Book Value)</li> </ul> |

#### Example:

ABC Ltd. Wants to re-classify its investments in accordance with AS 13 (revised).

Decide and state on the amount of transfer, based on the following information:

- (1) A portion of current investments purchased for Rs. 20 lakhs, to be reclassified as long-term investment, as a company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.  
The market value of the investment is Rs. 25 lakhs, which is higher than its cost i.e., Rs. 20 lakhs. Therefore, the transfer to long-term investments should be carried at cost i.e., Rs. 20 lakhs.
- (2) Another portion of current investments purchased for Rs. 15 lakhs, to be reclassified as long-term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.

The market value of the investment is Rs. 6.5 lakhs, which is lower than its cost i.e., Rs. 15 lakhs. Therefore, the transfer to long-term investments should be carried in the books at the market value i.e., Rs. 6.5 lakhs. The loss of Rs. 8.5 lakhs should be charged to profit and loss account.

- (3) Certain long-term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was Rs. 18 lakhs but had been written down to Rs 12 lakhs to recognise other than temporary decline as per AS 13 (Revised).

The book value of the investment is Rs. 12 lakhs, which is lower than its cost i.e., Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at Rs. 12 lakhs.

## 6. IMPORTANT RULES FOR ACCOUNTING OF INVESTMENTS

### 1. RULES FOR INVESTMENT IN SHARES

#### RULE - 1:

When Shares are purchased multiple times on different dates at different prices then we shall calculate Average Cost per share to calculate gain/loss on sale (Avg. cost is taken when FIFO is not required).

#### Example 1:

Infosys share bought @ 1680/- per share (50 No.) on 15<sup>th</sup> June. On 1<sup>st</sup> July, again Infosys share bought @ 1705/- per share (45 No.). On 20<sup>th</sup> July sold 20 No. @ 1685/-. On 1<sup>st</sup> August, Infosys share purchased again 30 No. @ 1690/-. On 1<sup>st</sup> September 15 No. sold @ 1700/-

Calculate gains or losses.

#### Solution:

| PARTICULARS                        | WORKING            | AMOUNT            |
|------------------------------------|--------------------|-------------------|
| Purchase on 15 <sup>th</sup> June  | 50 No. × 1680      | 84,000            |
| Purchase on 5 <sup>th</sup> July   | 45 No. × 1705      | 76,725            |
|                                    | <b>95 No.</b>      | <b>1,60,725</b>   |
| W. Avg. Cost per Share             | 1,60,725 ÷ 95      | 1,69,184/-        |
| Sold on 20 <sup>th</sup> July      | 20 No. @ 1,685     | 33,700            |
| (-) W. Avg. Cost                   | 20 No. × 1,69,184  | <u>33,837</u>     |
| <b>Loss</b>                        |                    | <b><u>137</u></b> |
| 20 <sup>th</sup> July Balance      | 75 No. × @1,69,184 | 1,26,888          |
| Purchase on 1 <sup>st</sup> August | 30 No. × @ 1,690   | 50,700            |
|                                    | <b>105 No.</b>     | <b>1,77,588</b>   |
| W. Avg. cost per share             | 1,77,588 ÷ 105     | 1,69,131/-        |
| Sold on 1 <sup>st</sup> September  | 15 No. @ 1,69,131  | 25,500            |
| (-) W. Avg. Cost                   | 1,700/-            | <u>25,370</u>     |
| Gain as sale                       |                    | <b><u>130</u></b> |

**RULE – 2:**

When investor gets **bonus equity shares** at free of cost, the quantity of shares would get increased. However, the carrying value of investments (Book Value) will not be Increased.

While selling the shares after getting bonus, the gain/loss shall be difference between Selling Price of Share and Average cost per Share.

**Example 2:**

500 shares bought at 720/- per share. After some time, Investor got Bonus share in I:5. Now 250 sharers sold at 800/- per share. Find out gain on Sale.

**Solution:**

$$\text{W.Avg. Cost} = \frac{(500 \times 720) + (100 \times 0)}{600} = 600/- \text{ per share}$$

$$\text{Gain} = (800 - 600) \times 250 = 50,000/-$$

**Journal Entry**

- 1) Investment a/c Dr.            3,60,000  
     To Bank a/c                    3,60,000  
     (Buy 500 No. @ 720/-)
  
- 2) Bonus share: No entry.
  
- 3) **Sale:** Bank a/c Dr.            2,00,000  
                     To Investment A/c    150000  
                     To Gain as sale A/c    50000

**Example 3:****Investment in share:**

1/4/24 = Purchased 500 No @ 45/- each

1/6/24 = Purchased 300 No @ 52/- each

1/8/24 = Got bonus share in 2:5 (free)

1/9/24 = Sold 450 No. @ 50/- each

**Required:** 1) Calculate gain/loss on sale

2) pass journal entries

3) Prepare Investment a/c

**Answer:** W. Avg. Cost = 34.02/-; Gain on Sale = 7191/-

**RULE – 3:**

When Investor is Eligible for **Right Issue** shares:

Then there are two possibilities.

**1) If Investor Subscribes the Right Issue:**

- a) **Carrying Amount** of Investment would get **Increased** by cost of acquisition.
- b) **Quantity** of Shares would also be **Increased**.
- c) Therefore, we need to calculate **Weighted Average Cost per share after Right Issue**.

OR

## 2) If Investors are not subscribing the Right Issue and Selling the Right:

A) **GENERAL RULE:** Sale Proceeds are Transferred to Profit & Loss Account

Bank A/c Dr.

To Profit & Loss Account

B) If Original shares were acquired at Cum Right Price & after the Right Issue, Market Price is Lower than above Cum Right Price (i.e., Cost) then treat the sale proceeds as recovery towards Cost and it will be Credited to Investment Account.

Bank A/c Dr.

To Investment A/c

**Note:** Two Conditions must be fulfilled:

- 1) Original Shares must have been Purchased @ Cum Right Basis.
- 2) Market Price per Share after the Right Issue must be lower than above Cum Right Price, (i.e., Cost of Original Shares).

### Example 4:

Investor has 5000 No. Of shares whose cost is 1,25,000

After some time, Investor got Right issue offer in the ratio of 1:5 at Right issue price of 180/-

Case 1: Investor Subscribed all 1000 shares

Case 2: Investor has transferred this right to third party @ 20/- each.

Case 3: Investor Subscribed 50% Right issue & rest 50% transferred @ 20/- each.

### Solution

| Case 1                     |     |          |
|----------------------------|-----|----------|
| Investment a/c             | Dr. | 1,80,000 |
| To Bank A/c                |     | 1,80,000 |
| (180/- x 1000 No.)         |     |          |
| Case 2                     |     |          |
| Bank a/c Dr.               |     | 20,000   |
| To P&L a/c                 |     | 20,000   |
| Case 3                     |     |          |
| Investment a/c Dr.         |     | 90,000   |
| To Bank a/c                |     | 90,000   |
| (500 x 180/-)              |     |          |
| Bank a/c Dr.               |     | 10,000   |
| To P&L a/c                 |     | 10,000   |
| (500 x 20) (Sale proceeds) |     |          |

### Example 5:

Mr. Jai has 1200 shares of HDFC Bank Whose value is 22,80,000/- on 1/4/24

On 1/5, Jai purchased another 300 shares of HDFC @ 2,100/- each

on 1/6, Jai got Bonus Shares from HDFC in 1:5

On 1/7, Jai sold 800 shares @ 2,250/- each

on 1/8, HDFC announced Right issue in 1:2 @ Discounted price or 1,750/- each.

Mr. Jai Subscribed 60% of Right issue Offer & rest 40% transferred to third party @90/-each

Show Investment a/c (in the Books OF Mr. Jai)

**Example 6:**

Company announced Right issue as 1:2 at 40/- each

After announcement MP becomes 75/- (this is Cum Right Price)

Investor bought 1000 shares at 75/- each. After Right issue market price becomes:

Case a) 80/-

Case b) 60/-

Case c) 75/-

We transferred 500 no. or Right offer to Third party at 10/- each

**RULE - 4:**

If Annual Dividend is Declared and Paid then it must be calculated on the total no. of shares held on the date of receipt of Dividend (Except Bonus Issue and Right Issue Received in Current Year).

If Interim Dividend is Declared in current year in which Bonus & Right issue made and Dividend is Declared after Bonus and Right Issue then it shall be calculated on total share Held on the date of Dividend Including Bonus & Right.

**Example 7:**

Vikas holds 5,000 Shares as on 1/4/23 (FV = 10/-). On 1/5/23 Vikas purchased same shares (2,000 no.), again on 1/6/23, Vikas got 1000 no. of same shares as Bonus. On 1/7/23, Vikas got 1500 no as Right issue. On 1/8/23 Company paid Dividend @12%

How much Dividend Vikas received?

**Example 8:**

Taking details from the above example company paid interim dividend on 15<sup>th</sup> oct @6%

How much Dividend Vikas has received?

**RULE – 5: Dividend received on Investment in Equity Shares****1) Pre-Acquisition dividend (It is of Pre-Acquisition Period)**

Reduce Investment because it is treated as recovery of cost

Bank A/c Dr.

To Investment A/c

**2) Post-Acquisition dividend (It is of Post-Acquisition Period)**

Transfer to Profit and Loss Account

Bank A/c Dr.

To Profit & Loss A/c

**Example 9:**

Nikhil purchased shares of company on 1/5/23 from market @140/- per share (500 no). On 1/7/23 Nikhil received Dividend from Company @ 15% Face value is 100/-

Show journal entries in the Books of Investor (Nikhil).

**Answer: Pre-acquisition Dividend = 7,500 to be deducted from cost of investment.**

**Example 10:**

From the above example, Nikhil again received dividend on 1/7/24 @20%.

**RULE – 6:**

Whenever the **Pre-Acquisition dividend** is received and credited to Investment account and then the shares are sold then, to calculate Gain/Loss on sale, the average cost per share will be calculated after deducting the pre-acquisition dividend from cost.

**Example 11:**

Opening Balance on 1<sup>st</sup> April in Shares = 1,000 no. purchased at 25/-. On 1<sup>st</sup> May, 600 no. of shares purchased at 32/-; on 1<sup>st</sup> June Bonus shares received 100 no.; on 1<sup>st</sup> August Dividend Received 10% (Face value of shares Rs. 10), on 1<sup>st</sup> December 250 no. of shares sold at 29.5/- each.

## **2. RULES FOR INVESTMENT IN DEBENTURES/BONDS**

**RULE - 7:**

When **Debentures** are purchased multiple times on different dates at different prices then we shall calculate **Average Cost** per debenture to calculate gain/loss on sale (Avg. cost is taken when FIFO is not required).

**RULE - 8:**

If in any question **Cum Interest price** and **Ex Interest** price is given, we shall always record investment at Ex Interest Price. Because Ex Interest Price is real Market Price. We should record the Interest paid separately through Profit & Loss Account.

**Example 12:**

Purchased 1200 no of debentures @99/- (Ex-interest) as on 1<sup>st</sup> November. Last interest was due on 30<sup>th</sup> September. Rate of Interest is 9% p.a. Face Value is 100/-

**Answer: Investment Cost = 1,18,800 and Interest Expense on purchase = 900**

**Example 13:**

Mr. Amit Purchased 1200 No. of Debenture @ 99.5/- (Ex. Interest Price). Date of Purchase is 1st November. Interest is due on 30th Sep. and 31st March (Six monthly Basis). Interest is 9% p.a.

**Answer: Investment Cost = 1,19,400/- Interest Expense on purchase = 900 and Interest Received on 31<sup>st</sup> March = 5,400/-**

**Example 14:**

FY 23-24, on 1<sup>st</sup> June, 500 no. of debentures are purchased at 96/- Ex-interest. Interest is payable on every six months on 30<sup>th</sup> Sep and 31<sup>st</sup> March at 12% p.a. On 1<sup>st</sup> Jan, 300 no. of debentures are purchased at 101/- cum-interest. Calculate Avg. cost per debentures after both purchases and Interest thereon.

**Answer: Avg. Cost = 96.75/-; Interest First Half = 3,000 and 2<sup>nd</sup> Half = 4,800**

**RULE - 9:**

In case of Debentures/Bonds, while sale of these securities to calculate Gain/Loss on sale, always compare Ex Interest Purchase with Ex Interest Sale after adjusting Brokerage if any.

**Gain/Loss** = [(Ex-interest sale value) - (Brokerage)] - [(Ex-interest purchase value) + (Brokerage)]

**Example 15:**

FY 23-24

Company pays Interest on Six monthly Basis i.e 30<sup>th</sup> September & 31<sup>st</sup> March. On 1/4/23, Mr. Jai bought 1000 no. of Debentures at 99/- Ex. Interest Price. on 1/9/23, He again bought 1200 No. of Debentures at 98/- Ex. Interest Price. Interest Rate = 12%. p. a.

500 Debenture Sold on 1<sup>st</sup> October at 99.5/- Cum Interest.

700 Debenture Sold on 1<sup>st</sup> Jan 2024, at 102.5/- Cum Interest.

Prepare Investment A/c.

**Example 16:**

FY 23-24

Mr. Rahul Purchased 400 No. of 6% Debenture at 95/- Ex-Interest on 1/6/23.

He again purchased 500 No. at 97/- Cum-Interest on 1/9/23.

He Sold 300 no. at 99.5/- Cum Interest on 1<sup>st</sup> December.

He again Purchased 100 No. at 97.25/- Ex-Interest on 1<sup>st</sup> March 2024.

Interest is due on every 30/9 & 31/3

Prepare Investment A/c.

### **3. COMMON RULES FOR SHARES AND DEBENTURES**

#### **RULE - 10:**

We should always record the Investment (at the time of purchase) at Acquisition cost and Not at Face value.

#### **RULE - 11:**

Brokerage paid at the time of Purchase shall be added to cost of Investment. Brokerage paid at the time of sale shall be deducted from sale proceeds.

#### **RULE - 12:**

To calculate Brokerage, we have to make calculation on Actual Cost always (Not on Face Value) if nothing is mentioned in Question.

#### **RULE - 13:**

Interest and Dividend shall always be calculated on Nominal value (Face Value) and Not on Cost Price.

#### **RULE - 14:**

Interest Income Shall always be Calculated on Time Proportion Basis (i.e., Month Wise)

But Dividend Income shall always be calculated on Annual Basis only unless it is Interim Dividend.

**Note:** Dividends are of Two types, Final Dividend (Annual Period) and Interim Dividend (less than 12 months period)

**Example 17:**

Siddhant has 900 No. of Share at total Cost of 1,20,000/-. He got Bonus shares of 450 No. on 1/6/23. He got Right issue share of 300 No. on 1/8/23. He got Interim Dividend on 1<sup>st</sup> October @ 6%. How much Dividend will he get? How much is Post Acquisition Dividend?

**Example 18:**

Investor has 3000 shares of 32,00,00/- at Beginning of year. Investor acquired another 1800 share at 115/- on 1/5/23. Investor got Bonus of 1:2 on 1<sup>st</sup> June. Investor got Right issue Offer of 1:6 on 1<sup>st</sup> July. Out of which 30% transferred to third party & 20/- each & rest 70% subscribed at 90/- each. Investor got dividend of 9% on 31<sup>st</sup> July. Investor Sold 2100 Shares at 110/- on 1<sup>st</sup> December. Show Investment a/c

## 7. MCQ's from ICAI Resources

1. The cost of Right shares is
  - (a) added to the cost of investments.
  - (b) subtracted from the cost of investments.
  - (c) no treatment is required.
  - (d) added to cost of investments at market value.
  
2. Long term investments are carried at
  - (a) fair value.
  - (b) cost less 'other than temporary' decline.
  - (c) Cost and market value whichever is less.
  - (d) Cost and market value whichever is higher.
  
3. Current investments are carried at
  - (a) Fair value.
  - (b) cost.
  - (c) Cost and fair value, whichever is less.
  - (d) Cost and fair value, whichever is higher.
  
4. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ` 75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ` 60 per share, which was subscribed for by A. Total cost of investments at the year - end will be `
  - (a) 2,70,000.
  - (b) 1,50,000.
  - (c) 1,20,000.
  - (d) 1,70,000.
  
5. Cost of investment includes
  - (a) Purchase costs.
  - (b) Brokerage and Stamp duty paid.
  - (c) Both (a) and (b).
  - (d) none of the above.
  
6. A current investment is an investment
  - (a) That is readily realisable.
  - (b) That is intended to be held for not more than one year from the date on which such investment is made.
  - (c) Both 1 and 2
  - (d) That is intended to be held for not more than two years from the date on which such investment is made.

|                |          |          |          |          |          |          |
|----------------|----------|----------|----------|----------|----------|----------|
| <b>ANSWERS</b> | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> | <b>6</b> |
|                | A        | B        | C        | A        | C        | C        |